

DARDEN RESTAURANTS INC  
Form 10-Q  
October 03, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended August 24, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
1-13666

Commission File Number  
DARDEN RESTAURANTS, INC.  
(Exact name of registrant as specified in its charter)

Florida 59-3305930  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1000 Darden Center Drive 32837  
Orlando, Florida (Zip Code)  
(Address of principal executive offices)

407-245-4000  
(Registrant's telephone number, including area code)

Not applicable (Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Number of shares of common stock outstanding as of September 15, 2014: 132,647,480 (excluding 1,286,019 shares held in our treasury).



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Cautionary Statement Regarding Forward-Looking Statements

Statements set forth in or incorporated into this report regarding the expected net increase in the number of our restaurants, U.S. same-restaurant sales, total sales growth, diluted net earnings per share growth, and capital expenditures in fiscal 2015, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “believe,” “plan” or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This statement is included for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Forward-Looking Statements” under Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## DARDEN RESTAURANTS, INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share data)

(Unaudited)

	Three Months Ended	
	August 24, 2014	August 25, 2013
Sales	\$1,595.8	\$1,531.5
Costs and expenses:		
Cost of sales:		
Food and beverage	502.0	454.1
Restaurant labor	508.3	491.4
Restaurant expenses	272.3	262.6
Total cost of sales, excluding restaurant depreciation and amortization of \$72.6 and \$68.9, respectively	\$1,282.6	\$1,208.1
Selling, general and administrative	160.0	165.6
Depreciation and amortization	78.7	74.2
Interest, net	111.3	32.8
Asset impairment, net	6.9	1.0
Total costs and expenses	\$1,639.5	\$1,481.7
(Loss) earnings before income taxes	(43.7	) 49.8
Income tax (benefit) expense	(24.4	) 7.6
(Loss) earnings from continuing operations	\$(19.3	) \$42.2
Earnings from discontinued operations, net of tax expense of \$320.7 and \$10.7, respectively	522.5	28.0
Net earnings	\$503.2	\$70.2
Basic net earnings per share:		
(Loss) earnings from continuing operations	\$(0.14	) \$0.32
Earnings from discontinued operations	3.95	0.22
Net earnings	\$3.81	\$0.54
Diluted net earnings per share:		
(Loss) earnings from continuing operations	\$(0.14	) \$0.32
Earnings from discontinued operations	3.95	0.21
Net earnings	\$3.81	\$0.53
Average number of common shares outstanding:		
Basic	132.2	130.2
Diluted	132.2	132.6
Dividends declared per common share	\$0.55	\$0.55

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In millions)  
 (Unaudited)

	Three Months Ended	
	August 24, 2014	August 25, 2013
Net earnings	\$503.2	\$70.2
Other comprehensive income (loss):		
Foreign currency adjustment	1.5	(1.0 )
Change in fair value of marketable securities, net of taxes of \$0.0 and \$(0.1), respectively	(0.1 )	(0.1 )
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of \$15.4 and \$(1.0), respectively	23.9	(2.1 )
Amortization of unrecognized net actuarial loss, net of taxes of \$0.5 and \$1.0, respectively	0.3	1.6
Other comprehensive income (loss)	\$25.6	\$(1.6 )
Total comprehensive income	\$528.8	\$68.6

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions)

	August 24, 2014 (Unaudited)	May 25, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$413.7	\$98.3
Receivables, net	86.2	83.8
Inventories	201.6	196.8
Prepaid income taxes	—	10.9
Prepaid expenses and other current assets	75.1	72.3
Deferred income taxes	173.0	124.0
Assets held for sale	54.3	1,390.3
Total current assets	\$1,003.9	\$1,976.4
Land, buildings and equipment, net of accumulated depreciation and amortization of \$2,083.8 and \$2,050.2, respectively	3,380.0	3,381.0
Goodwill	872.5	872.5
Trademarks	574.6	574.6
Other assets	293.1	296.2
Total assets	\$6,124.1	\$7,100.7
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$212.5	\$233.1
Short-term debt	—	207.6
Accrued payroll	101.0	125.7
Accrued income taxes	337.0	—
Other accrued taxes	65.9	64.5
Unearned revenues	266.4	299.7
Current portion of long-term debt	115.0	15.0
Other current liabilities	504.0	457.4
Liabilities associated with assets held for sale	—	215.5
Total current liabilities	\$1,601.8	\$1,618.5
Long-term debt, less current portion	1,468.5	2,481.4
Deferred income taxes	285.4	286.1
Deferred rent	212.6	206.2
Obligations under capital leases, net of current installments	51.4	52.0
Other liabilities	376.5	299.6
Total liabilities	\$3,996.2	\$4,943.8
Stockholders' equity:		
Common stock and surplus	\$817.0	\$1,302.2
Retained earnings	1,426.1	995.8
Treasury stock	(7.8)	) (7.8 )
Accumulated other comprehensive income (loss)	(102.5)	) (128.1 )
Unearned compensation	(4.9)	) (5.2 )
Total stockholders' equity	\$2,127.9	\$2,156.9
Total liabilities and stockholders' equity	\$6,124.1	\$7,100.7

See accompanying notes to our unaudited consolidated financial statements.

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## DARDEN RESTAURANTS, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the three months ended August 24, 2014 and August 25, 2013

(In millions)

(Unaudited)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at May 25, 2014	\$1,302.2	\$995.8	\$(7.8)	\$ (128.1)	\$ (5.2)	\$ 2,156.9
Net earnings	—	503.2	—	—	—	503.2
Other comprehensive income	—	—	—	25.6	—	25.6
Dividends declared	—	(72.4)	—	—	—	(72.4)
Stock option exercises (0.2 shares)	7.7	—	—	—	—	7.7
Stock-based compensation	4.6	—	—	—	—	4.6
ESOP note receivable repayments	—	—	—	—	0.3	0.3
Income tax benefits credited to equity	1.0	—	—	—	—	1.0
Repurchases of common stock (0.0 shares)	(0.1)	(0.5)	—	—	—	(0.6)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	1.6	—	—	—	—	1.6
Accelerated share repurchase program	(500.0)	—	—	—	—	(500.0)
Balance at August 24, 2014	\$817.0	\$1,426.1	\$(7.8)	\$ (102.5)	\$ (4.9)	\$ 2,127.9
Balance at May 26, 2013	\$1,207.6	\$998.9	\$(8.1)	\$ (132.8)	\$ (6.1)	\$ 2,059.5
Net earnings	—	70.2	—	—	—	70.2
Other comprehensive income (loss)	—	—	—	(1.6)	—	(1.6)
Dividends declared	—	(72.0)	—	—	—	(72.0)
Stock option exercises (0.2 shares)	6.2	—	0.2	—	—	6.4
Stock-based compensation	5.7	—	—	—	—	5.7
ESOP note receivable repayments	—	—	—	—	0.3	0.3
Income tax benefits credited to equity	1.6	—	—	—	—	1.6
Repurchases of common stock (0.0 shares)	(0.1)	(0.3)	—	—	—	(0.4)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	1.8	—	—	—	—	1.8
Balance at August 25, 2013	\$1,222.8	\$996.8	\$(7.9)	\$ (134.4)	\$ (5.8)	\$ 2,071.5

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In millions)  
(Unaudited)

	Three Months Ended	
	August 24, 2014	August 25, 2013
Cash flows—operating activities		
Net earnings	\$503.2	\$70.2
Earnings from discontinued operations, net of tax	(522.5	) (28.0
Adjustments to reconcile net earnings from continuing operations to cash flows:		
Depreciation and amortization	78.7	74.2
Asset impairment charges	6.9	1.0
Amortization of loan costs and losses on interest-rate related derivatives	3.0	3.4
Stock-based compensation expense	6.2	8.7
Change in current assets and liabilities	(62.3	) (17.3
Contributions to pension and postretirement plans	(0.3	) (0.5
Loss on disposal of land, buildings and equipment	1.9	0.1
Change in cash surrender value of trust-owned life insurance	(2.6	) (1.6
Deferred income taxes	(22.6	) (5.7
Change in deferred rent	6.7	7.6
Change in other assets and liabilities	(1.4	) 7.3
Loss on extinguishment of debt	80.0	—
Other, net	2.1	3.0
Net cash provided by operating activities of continuing operations	\$77.0	\$122.4
Cash flows—investing activities		
Purchases of land, buildings and equipment	(81.7	) (120.4
Proceeds from disposal of land, buildings and equipment	—	1.6
Proceeds from sale of marketable securities	5.1	—
Increase in other assets	(3.9	) (8.6
Net cash used in investing activities of continuing operations	\$(80.5	) \$(127.4
Cash flows—financing activities		
Proceeds from issuance of common stock	9.3	8.2
Income tax benefits credited to equity	1.0	1.6
Dividends paid	(72.8	) (71.7
Repurchases of common stock	(0.6	) (0.4
ESOP note receivable repayment	0.3	0.3
Proceeds from issuance of short-term debt	377.4	508.7
Repayments of short-term debt	(585.0	) (461.2
Repayment of long-term debt	(949.9	) —
Principal payments on capital leases	(0.5	) (0.5
Payment for accelerated share repurchase program	(500.0	) —
Proceeds from financing lease obligation	93.1	—
Net cash used in financing activities of continuing operations	\$(1,627.7	) \$(15.0
Cash flows—discontinued operations		
Net cash (used in) provided by operating activities of discontinued operations	(32.4	) 94.6
Net cash provided by (used in) investing activities of discontinued operations	1,979.0	(53.9
Net cash provided by discontinued operations	\$1,946.6	\$40.7

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Increase in cash and cash equivalents	315.4	20.7
Cash and cash equivalents - beginning of period	98.3	88.2
Cash and cash equivalents - end of period	\$413.7	\$108.9

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
 (In millions)  
 (Unaudited)

	Three Months Ended	
	August 24, 2014	August 25, 2013
Cash flows from changes in current assets and liabilities		
Receivables, net	12.5	3.9
Inventories	26.8	5.6
Prepaid expenses and other current assets	10.1	(7.8 )
Accounts payable	(39.8 )	9.3 )
Accrued payroll	(16.7 )	(7.6 )
Prepaid/accrued income taxes	(18.5 )	8.2 )
Other accrued taxes	3.4	0.4
Unearned revenues	(25.1 )	(20.7 )
Other current liabilities	(15.0 )	(8.6 )
Change in current assets and liabilities	\$(62.3 )	\$(17.3 )
Supplemental schedule of noncash investing activities:		
Increase in land, buildings and equipment through accrued purchases	\$30.5	\$48.8

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Darden Restaurants, Inc. (we, our or the Company) owns and operates full-service dining restaurants in the United States and Canada under the trade names Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, Yard House®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood® and Wildfish Seafood Grille®. We have prepared these consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. We operate on a 52/53 week fiscal year, which ends on the last Sunday in May and our fiscal year ending May 31, 2015 will contain 53 weeks of operation. Operating results for the quarter ended August 24, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2015.

These statements should be read in conjunction with the consolidated financial statements and related notes to consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and costs and expenses during the reporting period. Actual results could differ from those estimates.

Red Lobster Sale

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities and closed on the sale on July 28, 2014. For the quarters ended August 24, 2014 and August 25, 2013, all gains on disposition, impairment charges and disposal costs, along with the sales, costs and expenses and income taxes attributable to Red Lobster and two closed synergy locations, have been aggregated in a single caption entitled "Earnings from discontinued operations, net of tax expense" in our consolidated statements of earnings for all periods presented. See Note 2 - Dispositions for additional information.

Note 2. Dispositions

On July 28, 2014, we closed on the sale of 705 Red Lobster restaurants, however, as of August 24, 2014, 37 of the properties remain subject to landlord consents and satisfaction of other contractual requirements, which are expected to be satisfied within the next 12 months. Therefore, the assets of these remaining restaurants continue to be classified as held for sale and recognition of the gain on the related proceeds was deferred. The proceeds of approximately \$80.7 million associated with landlord consents are classified as other current liabilities on our consolidated balance sheet as of August 24, 2014. As the landlord consents and remaining contractual requirements are satisfied, we will derecognize the related assets and record the commensurate gain on the transaction. In conjunction with the sale of Red Lobster, there were 19 locations where Red Lobster shared a land parcel with another Darden brand. The land and related buildings for these 19 Darden locations were included in the sale transaction and simultaneously leased back to Darden. The proceeds associated with the sale of these properties are classified as a financing lease obligation on our consolidated balance sheet as a component of other liabilities and the associated lease payments will amortize the obligation over the life of the properties. Additionally, in the fourth quarter of fiscal 2014, in connection with the expected sale of Red Lobster, we closed two of the six restaurants that housed both a Red Lobster and an Olive Garden in the same building (synergy restaurants). In the first quarter of fiscal 2015, we completed the conversion of

the four remaining synergy restaurants to stand-alone Olive Garden restaurants.

As of August 24, 2014, we have received \$2.08 billion in cash proceeds, net of transaction-related costs of approximately \$29.3 million. For the quarter ended August 24, 2014, we recognized a gain on the sale of Red Lobster of \$817.2 million, which is included in earnings from discontinued operations in our consolidated statement of earnings.

For the quarters ended August 24, 2014 and August 25, 2013, all gains on disposition, impairment charges and disposal costs, along with the sales, costs and expenses and income taxes attributable to these restaurants, have been aggregated in a single caption entitled "Earnings from discontinued operations, net of tax expense" in our consolidated statements of earnings for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations. Assets associated with those restaurants not yet disposed of, that are considered held for sale, have been segregated from continuing operations and presented as assets held for sale on our accompanying consolidated

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

balance sheets. Earnings from discontinued operations, net of taxes in our accompanying consolidated statements of earnings are comprised of the following:

(in millions)	Three Months Ended	
	August 24, 2014	August 25, 2013
Sales	\$400.4	\$627.0
Earnings before income taxes	843.2	38.7
Income tax expense	320.7	10.7
Earnings from discontinued operations, net of tax	\$522.5	\$28.0

The following table presents the carrying amounts of the major classes of assets and liabilities associated with the restaurants reported as discontinued operations and classified as held for sale on our accompanying consolidated balance sheets:

(in millions)	August 24, 2014	May 25, 2014
Current assets	\$—	\$241.0
Land, buildings and equipment, net	54.3	1,084.8
Other assets	—	64.5
Total assets	\$54.3	\$1,390.3
Current liabilities	\$—	\$130.6
Other liabilities	—	84.9
Total liabilities	\$—	\$215.5

## Note 3. Supplemental Cash Flow Information

(in millions)	Three Months Ended	
	August 24, 2014	August 25, 2013
Interest paid, net of amounts capitalized	\$54.0	\$9.0
Income taxes paid, net of refunds	10.2	19.0

For the three months ended August 24, 2014, interest paid includes costs associated with the retirement of long-term debt (see Note 13 - Long-Term Debt for further information), of \$34.9 million in addition to \$12.2 million of interest accrued through the date of the retirement.

## Note 4. Stock-Based Compensation

We grant stock options for a fixed number of shares to certain employees and directors with an exercise price equal to the fair value of the shares at the date of grant. We also grant restricted stock, restricted stock units, and performance stock units with a fair value determined based on our closing stock price on the date of grant. In addition, we also grant cash settled stock units (Darden Stock Units) and cash settled performance stock units, which are classified as liabilities and are marked to market as of the end of each period.

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes option pricing model were as follows:

	Stock Options Granted Three Months Ended		
	August 24, 2014	August 25, 2013	
Weighted-average fair value	\$10.35	\$12.07	
Dividend yield	4.5	% 4.4	%
Expected volatility of stock	37.3	% 39.6	%
Risk-free interest rate	2.1	% 1.9	%
Expected option life (in years)	6.5	6.4	

The following table presents a summary of our stock-based compensation activity for the three months ended August 24, 2014:

(in millions)	Stock Options	Restricted Stock/ Restricted Stock Units	Darden Stock Units	Performance Stock Units
Outstanding beginning of period	11.2	0.2	2.1	0.3
Awards granted	1.0	—	0.5	0.1
Awards exercised	(0.2)	) —	(0.4)	) (0.1)
Awards forfeited	(0.2)	) —	(0.6)	) (0.2)
Performance unit adjustment	—	—	—	0.4
Outstanding end of period	11.8	0.2	1.6	0.5

We recognized expense from stock-based compensation as follows:

(in millions)	Three Months Ended	
	August 24, 2014	August 25, 2013
Stock options	\$3.2	\$4.2
Restricted stock/restricted stock units	0.4	0.4
Darden stock units	1.3	1.8
Performance stock units	0.9	1.8
Employee stock purchase plan	0.4	0.5
Total stock-based compensation expense	\$6.2	\$8.7

As of the effective date of the Red Lobster sale, all outstanding, unvested stock options, restricted stock and Darden stock units held by Darden employees that transferred to Red Lobster were either vested on a pro-rata basis or canceled. Approximately 23.7 thousand performance stock units remain outstanding and are expected to be settled on a pro-rata basis on the scheduled dates in the first quarter of fiscal 2016 and 2017 when the applicable performance factors are determined.

## Note 5. Income Taxes

The effective income tax rate of 55.8 percent for the quarter ended August 24, 2014 reflected a tax benefit of \$24.4 million on a loss before income taxes from continuing operations of \$43.7 million. The effective income tax rate of 15.3 percent for the quarter ended August 25, 2013 reflected tax expense of \$7.6 million on earnings before income taxes from continuing operations of \$49.8 million. The change in the effective income tax rate for the quarter ended



August 24, 2014 as compared to the quarter ended August 25, 2013 is primarily attributable to a \$30.6 million tax benefit related to \$80.0 million of debt breakage costs associated with the retirement of long-term debt. Excluding the impact of these costs and the related tax benefit, our effective income tax rate for the quarter ended August 24, 2014 would have been approximately 17.0 percent.

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Included in our remaining balance of unrecognized tax benefits is \$27.1 million related to tax positions for which it is reasonably possible that the total amounts could change within the next twelve months based on the outcome of examinations or as a result of the expiration of the statute of limitations for specific jurisdictions.

## Note 6. Net Earnings per Share

Outstanding stock options and restricted stock granted by us represent the only dilutive effect reflected in diluted weighted average shares outstanding. Stock options and restricted stock do not impact the numerator of the diluted net earnings per share computation. Stock options and restricted stock excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

(in millions)	Three Months Ended	
	August 24, 2014	August 25, 2013
Anti-dilutive stock options and restricted stock	6.4	3.4

## Note 7. Stockholders' Equity

## Share Repurchase Program

In July 2014, as part of the previously authorized share repurchase program, we entered into accelerated share repurchase (ASR) agreements with Goldman, Sachs & Co. and Wells Fargo Bank, National Association (Dealers), which were amended and restated in September 2014 solely to address non-substantive technical clarifications. The ASR program provides for the repurchase of an aggregate of \$500.0 million of our common stock. Under the ASR agreements, we paid an aggregate of \$500.0 million to the Dealers in August 2014 and will receive an initial delivery of approximately 8.6 million shares in October 2014, which represents approximately 80.0 percent of the total shares that will be repurchased under the ASR transactions based on current share prices. After consideration of the provisions of Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, and ASC Topic 480, Distinguishing Liabilities from Equity, we concluded that the transaction qualifies for permanent equity classification. Accordingly, the \$500.0 million payment was recorded as a reduction to shareholders' equity and is reflected in common stock and surplus on our consolidated balance sheet as of August 24, 2014. The total number of shares we ultimately purchase in ASR transactions will be determined based on the average of the daily volume-weighted average share price of our common stock over the duration of the ASR transactions, less an agreed discount, and is subject to certain adjustments under the agreements. The agreements contemplate that final settlement is expected to occur in, or prior to, December 2014, although the completion date may be accelerated or, under certain circumstances, extended. At settlement, we may be entitled to receive additional shares of our common stock from a Dealer or, under certain circumstances, may be required to deliver shares or make a cash payment (at our option) to a Dealer. As of August 24, 2014, no shares repurchased under this program have been delivered and there was no impact on our weighted average number of common shares outstanding for the quarter ended August 24, 2014.

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, for the quarters ended August 24, 2014 and August 25, 2013 are as follows:

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balance at May 25, 2014	\$ (4.7)	) \$ 0.1	\$ (50.4)	) \$ (73.1)	) \$ (128.1)
Gain (loss)	(1.2)	) (0.1)	) (2.0)	) —	) (3.3)
Reclassification realized in net earnings	2.7	—	25.9	0.3	28.9
Balance at August 24, 2014	\$ (3.2)	) \$ —	\$ (26.5)	) \$ (72.8)	) \$ (102.5)
Balance at May 26, 2013	\$ (1.8)	) \$ 0.2	\$ (53.8)	) \$ (77.4)	) \$ (132.8)
Gain (loss)	(1.0)	) (0.1)	) (4.4)	) —	) (5.5)
Reclassification realized in net earnings	—	—	2.3	1.6	3.9
Balance at August 25, 2013	\$ (2.8)	) \$ 0.1	\$ (55.9)	) \$ (75.8)	) \$ (134.4)

The following table presents the amounts and line items in our consolidated statements of earnings where adjustments reclassified from AOCI into net earnings were recorded:

(in millions)	Location of Gain (Loss) Recognized in Earnings	Amount Reclassified from AOCI into Net Earnings Three Months Ended	
AOCI Components		August 24, 2014	August 25, 2013
Derivatives			